Phoenix

REASSURE LIFE LIMITED

Proposed Scheme to transfer certain long-term insurance business from ReAssure Life Limited to Phoenix Life Assurance Europe DAC under Part VII of the Financial Services and Markets Act 2000

Supplementary Report by the Chief Actuary on the impact of the Scheme on Policyholders of ReAssure Life Limited

3 October 2022

Contents

1. PURPOSE OF THIS REPORT

The purpose of this report (my "Supplementary Report") is to provide an update to my report entitled 'Report of the ReAssure Life Limited Chief Actuary on the proposed transfer of certain long-term insurance business from ReAssure Life Limited to Phoenix Life Assurance Europe dac under Part VII of the Financial Services and Markets Act 2000' dated 29 June 2022 (my "Main Report"). All definitions and abbreviations used in my Main Report apply also to this Supplementary Report.

In my Main Report I concluded that no class of policyholder of ReAssure Life Limited ("RLL") will be materially adversely affected by the implementation of the UK Scheme and, in particular, that the UK Scheme should not have any material adverse impact on the security of benefits of the existing RLL policyholders.

In this Supplementary Report, I consider whether, taking into account developments since the date of my Main Report and their potential impact on RLL and its policyholders, it remains appropriate to proceed with the UK Scheme. In considering the position, it is important to distinguish between changes that affect or would affect RLL policyholders in any event, irrespective of the implementation of the UK Scheme, and changes in the position of policyholders or a particular group of policyholders that arise or might arise as a result of the implementation of the UK Scheme. It is only the second type of change that is of relevance in deciding whether the conclusions reached in my Main Report remain valid notwithstanding any changed circumstances.

As part of my consideration of the UK Scheme in this Supplementary Report, I have updated the financial analysis to use financial information as at 30 June 2022 (see section 3), taken into account events that have occurred since then and considered whether the impact of the UK Scheme on the security and benefits of RLL policyholders would be affected in light of that updated information.

My conclusions are given in section 7.

This Supplementary Report is written for the RLL Board in my capacity as Chief Actuary for RLL. As well as the Board, this Supplementary Report may be used by the Independent Person, the High Court, the High Court of Ireland, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA"), the Central Bank of Ireland ("CBI") and any overseas regulators and courts in forming their own judgements about the UK Scheme. It is supplementary to my Main Report and should accordingly be read alongside my Main Report.

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS 200: Insurance.

In my opinion there has been an appropriate level of review in the production of this Supplementary Report and that it is compliant with the requirements of Actuarial Profession Standard X2 as issued by the Institute and Faculty of Actuaries.

2. DEVELOPMENTS SINCE MY MAIN REPORT

2.1. Changes to the UK Scheme, reinsurance and security agreements

At the time of writing my Main Report in June 2022, I reviewed the draft UK Scheme and associated reinsurance and security agreements. Since that time there have been minor drafting changes and typographical corrections. These corrections align the Scheme with its original intended effect. The financial analyses in my Main Report and this Supplementary report are consistent with the corrected version of the Scheme.

No other substantive changes have been made to the UK Scheme or to the reinsurance and security arrangements.

I am satisfied that none of these changes affects the impact of the UK Scheme on policyholders.

2.2. Economic conditions since December 2021

The financial analyses in my Main Report were prepared at 31 December 2021. Investment markets have been volatile during the first half of 2022 reflecting an uncertain geopolitical outlook. Credit spreads have widened, gilts yields have risen, and inflation has increased. he following table sets out the value of some key indicators of economic conditions.

Table 1: Movement in key economic indicators

	31 December 2021	31 March 2022	30 June 2022
FTSE-100	7384.54	7578.75	7169.28
FTSE-100 change since 31/12/21	-	+2.6%	-2.9%
UK Corporate bond spreads (basis points over gilts)			
AAA	38	40	60
AA	67	80	100
A	100	122	163
BBB	137	171	229
15-year gilt yield	1.15%	1.81%	2.67%

RLL's capital position is largely insulated from the market movements shown in the table above, owing to the IGR with RAL, which mitigates most of the risks RLL would otherwise be exposed to. I note that the trends of increasing interest rates and rising inflation have continued since 30 June 2022. Because of the IGR, these trends have very limited impact on RLL.

2.3. Developments affecting the financial position of RLL

My Main Report showed the projected position of RLL before and after the UK Scheme based on the balance sheet position as at 31 December 2021. The financial position of RLL has developed as expected between 31 December 2021 and 30 June 2022 as shown in the table below.

Table 2: RLL SII Balance Sheet at Q2 22 and YE21

£m	Q2 22	YE21
Total Assets	6,815.2	8,218.3
Total Liabilities	6,579.6	7,985.6
Own Funds	**235.6**	**232.7**
SCR	19.2	36.6
Capital management policy buffer	6.0	6.0
Excess capital	210.4	190.1
Solvency ratio pre buffer	**1,229%**	**636%**

The reduction in both assets and liabilities from YE21 to Q2 22 reflects the expected run-off of the business over the first half of 2022, together with some adverse unit-linked investment performance consistent with the economic indicators shown in section 2.2.

I noted in my Main Report that the year-end SCR of £36.6m was unusually high compared with previous quarters' results because of equity exposure on a temporarily higher level of excess assets in the unit-linked funds. I also noted that, in line with expectations, the SCR at Q1 22 had returned to a more typical level of £21.5m. The SCR figure at Q2 22 of £19.2m remains at this more typical level.

The IGR insulates RLL's Own Funds against experience variances related to RLL's insurance liabilities and backing assets. The small increase in Own Funds is therefore primarily a consequence of the reduction in the Risk Margin which, in turn, is a result of the reduction in the SCR noted above

As set out in my Main Report, the solvency ratio of RLL is significantly inflated as a result of the IGR with RAL. The large proportionate reduction in SCR over the first half of 2022 coupled with stable Own Funds has resulted in the solvency ratio further increasing to 1,229% at 30 June 2022 from 636% at 31 December 2022.

However, as explained in my Main Report, the relative security of policyholder benefits should most appropriately be assessed by a comparison of the strengths of the capital management policies of RLL and PLAE, rather than attaching any particular significance to the current inflated solvency ratio of RLL caused by the IGR. I note also, as indicated in my Main Report, that RLL has now adopted the Phoenix Life Companies' Risk Appetite Framework with respect to its capital management policy. Both RLL and PLAE therefore now operate their policies under the same framework.

2.4. Solvency II consultations in the UK and the EU

In my Main Report I compared UK and EU Solvency II regimes and noted the potential for them to diverge in future. In this context I referred to consultation papers published by the HM Treasury and the PRA on 28 April 2022. The papers propose reforms to the UK Solvency II regime which include reducing the Risk Margin and amending the eligibility for and calibration of the Matching Adjustment. I noted in my Main Report that the ultimate outcome of this consultation process was uncertain but both consultations made clear that the safeguarding of policyholder protection was an important priority. I undertook to provide an update in my Supplementary Report.

The consultation closed on 21 July 2022, and, at the time of writing, there has been no further update from the PRA or HM Treasury.

Although differences in regulatory regimes may arise in future, I continue to be satisfied that they should not have a material adverse effect on transferring policyholders.

2.5. Operational readiness of PLAE

I noted in my Main Report that the Phoenix Group had planned the requirements to achieve operational readiness and establish appropriate management services agreements in time for the transfers in of business on 1 January 2023. I was informed by the project team that the necessary work was underway. I undertook to provide an update in my Supplementary Report.

I note significant progress has been made by the project team towards operational readiness post transfer. The key area where further progress still needs to be made is with regard the recruitment of new members of staff into SLAESL (Irish Branch) to perform customer servicing and administration requirements for PLAE.

Should the recruitment not be sufficiently advanced by the time of the transfer, contingency plans are being put in place by the project team. These plans include the retention of existing RUKSL staff and seconding them to SLAESL in Ireland or leveraging resource from elsewhere within the Group.

I am satisfied that these contingency plans should avoid any material deterioration in the quality of servicing and administration experienced by transferring policyholders until the recruitment process has been successfully completed.

2.6. Service standards in PLAE

As set out in my Main Report, the Phoenix Group will relocate regulated activity, including servicing activity, from the UK to Ireland to ensure that the transfer does not give rise to UK licensing requirements for PLAE. As a result, PLAE will enter into a Management Services Agreement ("MSA") with Standard Life Assets and Employee Services Limited, Ireland Branch ("SLAESL")

I noted in my Main Report that PLAE's MSA with SLAESL was expected to contain provisions such that the service standards provided by PLAE will not be materially different to those provided by RLL prior to the transfer.

I have been informed that the Service Level Agreements ("SLAs") in the Schedule to the MSA have been incorporated from the existing SLAs which are currently applicable to RLL. I am therefore comfortable that the Schedule contains provisions designed to ensure the same service standards will be maintained after the transfer.

2.7. PLAE expenses

As a result of the new MSA between PLAE and SLAESL, the level of fees to be borne by PLAE will rise materially compared with the allowances incorporated into the PLAE balance sheet as at 31 December 2021 shown in my Main Report. This increase in PLAE's expense liability, and the associated increases in SCR and Risk Margin, will be covered by increasing the capital injection required from RAL. PLAE will continue to be capitalised to a solvency ratio post transfer of at least 150% of SCR, consistent with its capital management policy.

The increased expenses will therefore not affect policyholder security.

2.8. Change in risk profile in PLAE

In my Main Report I set out the risk profile to which the transferring policyholders would be exposed within PLAE if the transfer had taken place at YE21. The increase in expense liability described above has resulted in a larger expense risk SCR within PLAE as at Q2 22 compared with YE21. This in turn has resulted in a shift in the overall risk profile with "other underwriting risk" making up larger proportion of the total risk at 30 June 2022. This change can be seen in the table below.

Table 3: Pre-diversification SCR within PLAE at YE21 and Q2 22

Risk Exposure	YE21	Q2 22
Longevity risk	46%	41%
Spread risk	23%	22%
Other underwriting risk	13%	19%
Counterparty default risk	10%	11%
Equity risk	5%	3%
Currency risk	1%	1%
Interest rate risk	1%	0%
Other	1%	1%
Total	**100%**	**100%**

The change in risk profile does not have a material adverse effect on policyholder security as PLAE continues to be capitalised to at least 150% of SCR.

3. REVIEW OF FINANCIAL ANALYSIS

I have reviewed the financial contents of sections 7 and 8 of my Main Report and an update is given below.

3.1. Effect of the transfer on transferring policies

My Main Report showed the position of RLL before, and pro-forma position of PLAE after, the implementation of the UK Scheme based on the balance sheet position as at 31 December 2021 assuming the transfers had taken place at that date.

The following tables and the comments in this section 3 update that analysis to a balance sheet date of 30 June 2022, assuming the transfers had taken place on that later date. The updated analysis reflects the economic conditions as referred to in section 2.2 of this Supplementary Report and, for the 30 June balance sheet, the change to the expense operating model set out in section 2.7. The updated financial position of PLAE post transfer, as set out in table 4, includes the impact of the transferring PLL business.

Table 4: RLL balance sheet pre-transfer and PLAE balance sheet post transfer

	30 June 2022		31 December 2021	
£m	**RLL Pre-Transfer**	**PLAE Post Transfer**	**RLL Pre-Transfer**	**PLAE Post Transfer[1]**
Total Assets	6,815.2	995.3	8218.3	1,095.9
Total Liabilities	6,579.6	910.4	7,985.6	996.5
Own Funds	**235.6**	**84.8**	**232.7**	**99.4**
SCR	19.2	56.6	36.6	66.2
CMP buffer	6.0	28.3	6.0	33.1
Excess capital	210.4	-	190.1	-
Solvency ratio pre buffer	**1,229%**	**150%**	**636%**	**150%**

Q2 22 source: PLAE balance sheet projection model -Q222 v0.14

The solvency ratio of PLAE assuming the transfers took place at 30 June 2022 is unaltered compared with 31 December 2021. This is because the capitalisation requirement in the UK Scheme provides for a share capital injection from RAL to cover the PLAE CMP leading to a solvency ratio of at least 150% post transfer. The Own Funds and SCR have decreased at 30 June 2022, compared with 31 December 2021. The two main causes of this reduction are:

[1] Total assets and total liabilities have been restated as at 31 December in the table above, compared with the equivalent figures which appeared in my Main Report. This is to provide a consistent presentation with the balance sheet shown at 30 June 2022. In the table above, at 31 December 2021, total assets and total liabilities now include an estimate of current assets and current liabilities which would transfer to PLAE. As these numbers exactly offset each other, there is no impact on Own Funds at 31 December 2021.

- A rise in risk free yields over the first half of 2022, which reduces the overall size of PLAE's balance sheet because future liabilities are more heavily discounted
- a reduction in volumes of business expected to transfer as a result of a further six months of run-off of the business prior to the later the transfer date.

The impact of these two effects is partially offset by the increase in expenses set out in 2.7.

3.2. Effect of the transfer on non-transferring policies

The table below shows the change in Own Funds on RLL as a result of the transfer and associated partial IGR recapture, assuming it happened at 30 June 2022. The estimated position as at 31 December 2021 in my Main Report is shown for comparison.

Table 5: Change in Own Funds as a result of the transfer at Q2 22 and YE21

Own Funds £m	Q2 2022	YE 2021
Pre Part VII	**235.6**	**232.7**
IGR recapture premium paid to RAL	(3.5)	(4.0)
Transfer price received from PLAE	3.7	5.8
Risk Margin reduction	0.2	0.2
Post Part VII	**236.0**	**234.7**

As set out in my Main Report, the table above reflects the following:

- Immediately prior to the transfer, an IGR premium is paid to RAL to recapture the EEA-based business
- The EEA-based business is then transferred to PLAE in return for an agreed transfer price
- There is estimated to be a small reduction in the risk margin following the transfer.

The transfer of EEA-based liabilities will also reduce the SCR in RLL by a small amount, and, together with the increase in Own Funds, will lead to an increase in the solvency ratio post transfer, as set out in the table below.

Table 6: Own Funds, SCR and Solvency Ratio (pre-buffer) as a result of the transfer at Q2 22 and YE21

	Q2 22			YE21		
	Own Funds £m	SCR £m	Solvency Ratio	Own Funds £m	SCR £m	Solvency Ratio
Pre Part VII	235.6	19.2	1,229%	232.7	36.6	636%
Post Part VII	236.0	18.6	1,272%	234.7	35.5	661%

Tables 5 and 6 together show that the implementation of the UK Scheme at 30 June 2022 has a similar impact on RLL's balance sheet as it did if the UK Scheme had been implemented at 31 December 2021. Own Funds increase marginally at both YE21 and Q2 22 and SCR reduces marginally at both dates too.

3.3. Impact of events since 30 June 2022

Since 30 June 2022 RLL's business continues its stable run-off in line with expectations. There have not been any other material events since 30 June 2022 which might suggest the impact of the Scheme would differ from that shown in section 3.2. I noted in section 2.2 that the continuing economic trends of rising interest rates and inflation since 30 June 2022 have a very limited impact on RLL.

For PLAE, interest rate rises since 30 June 2022 will reduce the value of the transferring assets and liabilities, and this reduces PLAE's capital requirements. I note that PLAE would be exposed to inflation on part of its expense liabilities (and a very small proportion of its annuity liabilities) following the transfer. I note that a severe inflation stress test has been carried out on the PLAE balance sheet, which showed that PLAE would withstand the stress and remain within its amber risk appetite for solvency capital coverage. This did not take account of management actions that are available to PLAE to mitigate the severity of this scenario.

I am satisfied that PLAE would be sufficiently capitalised at 30 June 2022 to withstand a more severe inflation scenario, albeit resulting in the need for management actions to be considered to restore PLAE's risk appetite. I also note that the capitalisation requirement of PLAE set out in the Scheme will be finalised in December 2022 and that it is a pre-condition of the Scheme becoming effective that PLAE must be capitalised so as to meet that requirement.

These events do not lead me to change my view on the impact of the Scheme on transferring policyholders.

4. EFFECT OF THE UK SCHEME ON TRANSFERRING RLL POLICIES

4.1. Security of benefits

In my Main Report I explained that if the transfer is approved, the security of benefits for transferring policies would be provided by:

- The EU Solvency II regulatory requirements, which are intended to ensure that insurance companies have sufficient Own Funds to be able to remain solvent following a 1 in 200 year stress scenario;
- The PLAE capital management policy, which provides for additional security over and above the regulatory requirements, together with governance around how this operates and when changes can be made to it;
- The level of oversight provided by the Irish regulator (the CBI) and the regulatory regime that will apply to the transferred RLL policies; and
- The strength of PLAE's reinsurance agreements and associated security.

As noted in section 2, the EU Solvency II regulatory requirements are currently unchanged, and I do not expect the policyholder protection they afford to be weakened relative to the UK regime.

In July, the PLAE Board approved the PLAE capital management policy. There have also been no changes to the UK Scheme or associated reinsurance and security arrangements (aside from the minor drafting amendments and typographical corrections to align to the intended effect, referred to in section 2.1 of this supplementary report).

The updated financial position set out in section 3 shows that, by virtue of the capitalisation requirement, PLAE will continue to be capitalised to at least 150% of SCR. I have considered the potential exposure of transferring policyholders to inflation risk within PLAE and noted that PLAE could withstand a severe inflation stress and remain within its amber risk appetite for solvency capital coverage.

Therefore, my conclusion remains unchanged that the security of benefits of transferring policies will not be materially adversely affected by the UK Scheme.

4.2. Benefit expectations

In my Main Report I outlined that, for all types of transferring business, the level of benefits payable is determined according to the policy Terms and Conditions. I also noted that the proposed UK Scheme does not make any changes to transferring policies in respect of:

- Policy terms and conditions,
- The process of calculating premiums and claims payments,
- The level or calculation of policy charges,
- Unit pricing methods or parameters, and
- The provision and operation of options and guarantees.

The proposed reinsurance agreement will allow transferring unit linked policies to access the same range of unit linked funds as before the transfer, through the maintenance of unit funds aligned to the existing unit holdings. There are no intended changes to the management practices of the unit-linked business, and no changes to discretionary charges as a result of the UK Scheme.

As set out in section 2, there have been no material changes to the UK Scheme, the reinsurance arrangements or the associated security arrangements.
Therefore, my original conclusion remains unchanged that the transfer would not have a material adverse effect on the benefit expectations of transferring policyholders.

5. EFFECT OF THE UK SCHEME ON NON-TRANSFERRING RLL POLICIES

5.1. Security of benefits

My Main Report set out that the security of benefits for non-transferring policies is provided by:

- The UK Solvency II regulatory requirements, which are intended to ensure that insurance companies have sufficient Own Funds to be able to remain solvent following a 1 in 200 year stress scenario; and
- The RLL Capital Management Policy, which provides for additional security over and above the regulatory requirements.

As noted in section 2, the UK Solvency II regulatory requirements are subject to change following consultation. I have no reason to believe policyholder security will be diminished by the changes. I explained in my Main Report that the RLL CMP was intended to be aligned to the Phoenix RAF before the UK Scheme is implemented. This has now happened with no changes to the capital buffer.

I also described in my Main Report the floating charge which PLAE will have on the assets of RLL so that its policyholders will rank equally to the non-transferring policyholders of RLL in the event of insolvency of RLL. As the transferring policyholders rank equally to the non-transferring policyholders prior to the UK Scheme, the introduction of the floating charge does not give rise to a reduction in the security of the non-transferring policyholders.

As described in section 2, there have been no substantive changes to the UK Scheme or the floating charges set out in the Scheme.

Taking into account the points above, and the updated analysis in section 3, my original conclusion remains unchanged that the security of benefits of non-transferring policies will not be materially adversely affected by the transfer.

5.2. Benefit expectations

In my Main Report I explained that there were no changes to the terms and conditions of any non-transferring RLL policyholders as a result of the UK Scheme, and similarly there are no changes to the exercise of discretion in respect of this business.
This remains the case. I therefore have no reason to change my original conclusion on benefit expectations.

6. OTHER MATTERS

6.1. Policyholder communications

I have reviewed the Scheme guide prepared for RLL policyholders and the related materials made available on the website. I am satisfied that the information regarding the proposals as contained therein adequately bring the proposals to the attention of policyholders and that it is not necessary to bring the observations made in this Supplementary Report to the attention of policyholders.

At the time of writing, 13 general enquiries about the transfer have been received from RLL policyholders. No objections have been received from RLL policyholders, although 3 transferring policyholders from PLL have objected to the transfer.

None of the concerns raised in those PLL objections affects the conclusions in my Main Report or this Supplementary Report.

6.2. Policyholders in suspended funds

In my Main Report I stated that approximately 250 transferring Swedish policyholders hold units in funds that have been suspended as a result of sanctions imposed due to the ongoing conflict between the Russian Federation and Ukraine.
I also noted that the transfer would not directly affect the suspension of these funds, and, if the funds remain suspended at the time of the transfer, RLL would not be expected to change its processes.

At the time of writing this Supplementary Report, circumstances have not changed. Therefore, my conclusions are not affected in respect of these policyholders.

7. CONCLUSIONS

My view is that the changes in the economic conditions and the other matters mentioned in this Supplementary Report have not affected the conclusions that I reached in my Main Report. Therefore, my opinion remains that no RLL policyholder will be materially adversely affected by the implementation of the UK Scheme and, in particular, that the UK Scheme will not have any adverse impact on the security of benefits of policyholders.

I continue to believe that the UK Scheme is consistent with RLL's obligation to treat its customers fairly.

Simon Thomlinson
Fellow of the Institute and Faculty of Actuaries
30 September 2022